

Frontier Retirement Income Covenant submission

August 2021

Introduction

Frontier is pleased to provide this submission to Treasury's consultation on the Retirement Income Covenant position paper.

Frontier is one of Australia's leading institutional investment advisors. We have been advising Australian institutional investors as a trusted adviser for over twenty-five years. We provide advice on more than \$470 billion of assets across the superannuation, charity, public sector, insurance and higher education sectors. The fact our advice is free of any product, manager or broker conflicts, means we can provide truly unconflicted advice aligned with our client's best interests.

Frontier welcomes the progress of the Retirement Income Covenant and agrees the retirement phase of superannuation remains under-developed. We support a retirement income strategy based on assisting members balance the conflicting aims of maximising income, managing risks, and having some flexible access to savings.

Feedback

The position paper is more principles based than the position paper issued by Treasury in May 2018 and Frontier is supportive of this. However, we think funds should be offering a more extensive range of retirement income solutions to their members than they do currently.

Frontier agrees with an "income" framing for retirement benefits and that retirees should be encouraged to draw down their superannuation at a higher rate than the minimum. We recommend funds provide members with a statement of the sustainable income that their balance can generate alongside useful insights into the risks involved.

The position paper recognises members' financial needs are more diverse in retirement than in the accumulation phase. Retirement involves difficult trade-offs, and some retirees struggle to develop effective retirement income strategies on their own. Frontier believes funds can play an active role in assisting their members choose a good retirement income strategy for their individual needs.

In our opinion, providing factual information which helps retirees choose an appropriate retirement income product is important. Simple and consistent communication is key. Guidance can play an important role and we are strong supporters of introducing default settings which act as 'nudges' to encourage members to draw down faster on their retirement savings.

Retirees have different characteristics. While one-size doesn't fit all, in our view there are a finite number of objectives when designing a retirement solution:

- income that lasts for life
- higher return

- flexibility to access capital
- bequest motive.

While the members' characteristics (e.g. balance, homeownership, etc) can be helpful in creating cohorts, it is member preferences for these objectives which we believe will determine the appropriate solution for a particular member or group of members. Frontier thinks member cohorting based on characteristics rather than preferences can only be part of the solution and shouldn't be overemphasised.

The specific inclusion of any Age Pension entitlements is a departure from previous position papers. It can be difficult and data intensive to determine the Age Pension status for an individual member, especially as it will rely on their entire household financial circumstances. We believe a member's Age Pension status shouldn't be required in determining an *appropriate* product for them. We recognise for some members their Age Pension status can help determine the *optimal* product; however, there is a danger the inclusion of Age Pension entitlements over complicates and delays the implementation of the reforms.

Full financial advice forms part of the solution for some members and we look forward to the outcome of the Quality of Advice Review. Financial advice needs to work better for consumers. However, we don't believe funds need to wait for this review. Advice shouldn't be a necessary part of the solution.

Frontier strongly supports the Government's intention to introduce a Retirement Income Covenant outlining an obligation for trustees to formulate, review and give effect to a retirement income strategy. Subject to the above feedback, we support the intention to legislate for a Retirement Income Covenant prior to 1 July 2022 and look forward to the early release of its drafting.